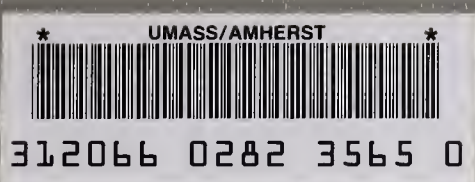


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FISCAL FACTS

A Report of the
Senate Committee
on Ways and Means

GOVERNMENT DOCUMENTS
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Capital Outlay Bills

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Over \$3 billion in new borrowing has been recommended to address some of the Commonwealth's capital needs. Fiscal prudence suggests that proposed bonding be balanced against current debt commitments, and that the Legislature and the Governor exercise restraint in addressing the capital authorization agenda which is before them.

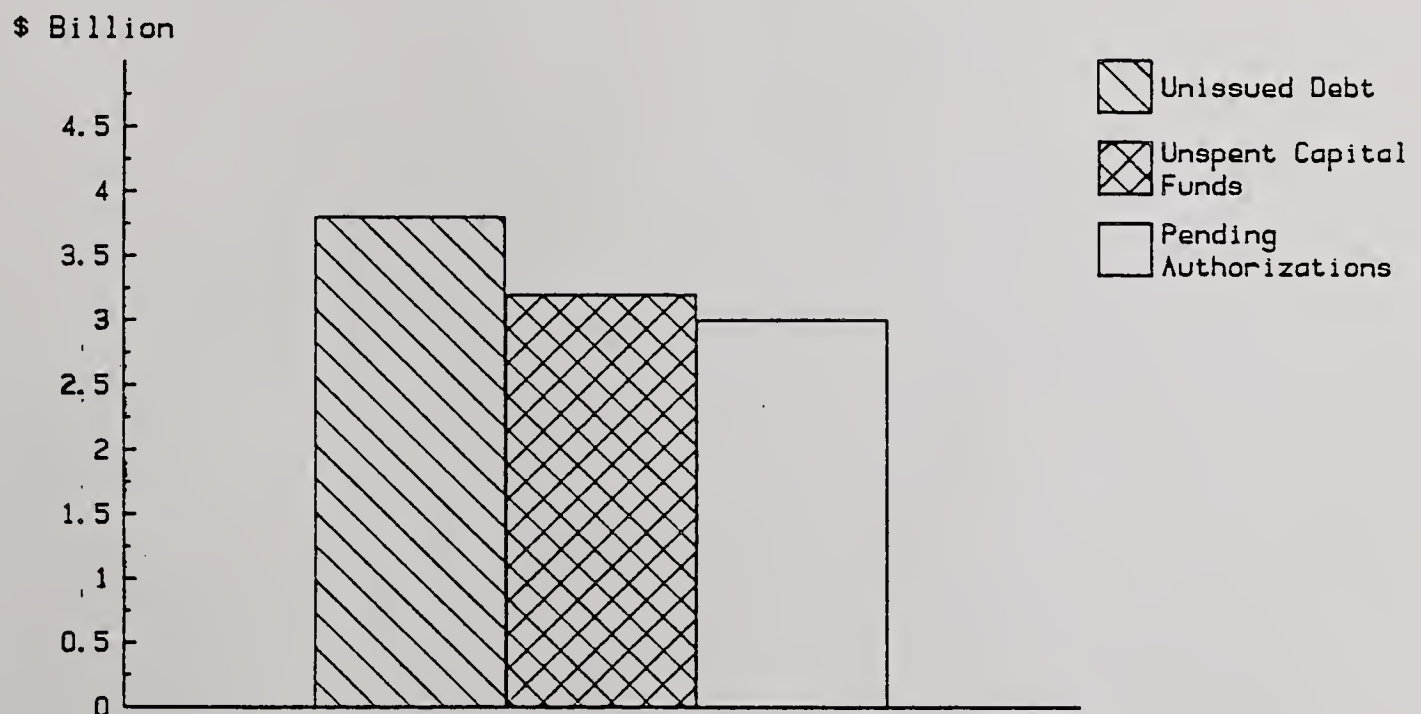
INTRODUCTION

During the 1987 legislative session, the Massachusetts Legislature will consider a variety of recommended capital appropriations which total an estimated \$3.0 billion in new borrowing authorizations and capital spending. Prior to 1987 a total of \$7.5 billion in outstanding capital borrowing authorizations existed. Of this total, bonds had been issued for \$3.7 billion, leaving \$3.8 billion in authorizations for which no bonds had been issued. The amount of borrowing authorization contained in pending capital appropriation bills therefore constitutes 40 percent of the Commonwealth's total outstanding authorizations and 79 percent of "unissued" debt. In addition, over \$3.2 billion in state agency spending under outstanding borrowing authorizations has yet to occur. Pending authorizations of \$3.0 billion would therefore increase the existing "unspent" category by 94 percent.

Pending capital appropriation bills fall generally into two categories: routine, annual or biennial authorizations, such as transportation, housing, capital maintenance of state facilities, and major capital projects involving state facilities; and special, first-time, or one-time capital programs, such as solid waste management, open space acquisition, hazardous waste clean-up, higher education improvements, mental health facility improvements, convention center support, and improvements to courthouses and libraries. Of the total estimated pending authorizations, approximately \$1.6 billion falls into the category of routine capital outlay programs and approximately \$1.4 billion into the category of special, first-time, or one-time programs.

Although the estimate of total pending capital authorizations is, to the best of the Committee's knowledge, exhaustive, it should be noted that in

COMPARISON: UNISSUED DEBT,
UNSPENT CAPITAL FUNDS,
PENDING AUTHORIZATIONS



most cases the estimate reflects an amount requested or likely to be requested by the Governor. Experience in the area of capital legislation has shown that such bills rarely emerge from the Legislature in an amount lower than requested by the Governor. In addition, the Governor's requests in some instances represent partial satisfaction of a multi-year commitment, as in the case of proposed higher education improvements. Although this plan approaches one billion dollars in cost, the Governor's request for the first year is only \$293 million. For these reasons the estimate of total pending authorizations provided here is no doubt low.

No one can argue that the needs which would be addressed through passage of these pending authorizations are not real. In many cases, action plans for severe and chronic problems that have been ignored by the Commonwealth are only now being considered. Few will argue that the debt service required in future operating budgets, even in this period of revenue uncertainty, will be beyond the capacity of the Commonwealth to absorb. Yet the Committee believes that an increase of 38 percent in the Commonwealth's total outstanding debt authorization and a potential doubling of unissued debt and spending responsibility is a step which should be taken neither lightly nor without full knowledge of the context within which individual bills will be considered. Such a context is especially important for consideration of capital bills, since initial financing does not come from Commonwealth revenues but is borrowed, creating a tendency to view these funding commitments as somehow off-budget or unreal.

Several factors make the 1987 capital outlay authorization picture a confusing one. In years past the Governor has submitted with his budget recommendations to the Legislature (House 1) a comprehensive capital outlay program of maintenance, major repair, and new construction projects for state facilities. This bill, along with biennial authorizations for transportation and housing, constituted the basic capital agenda. This year, partially in response to a Senate Committee on Ways and Means policy report entitled *Beyond Repair*, which called for an annual capital maintenance authorization and a biennial major capital authorization for state facilities, the Governor has chosen to submit his capital recommendations for state facilities through a number of different vehicles. While the capital maintenance request is included in the Governor's FY1988 budget recommendations, the remainder of the capital program for state facilities apparently will be submitted in separate vehicles for mental health facility improvement, higher education facility improvement, major capital outlay projects, and open space acquisi-

tion. In addition, 1987 happens to be not only a year in which the transportation and housing bonds will be considered, pursuant to the biennial schedule for these bills, but a year in which several major environmental problems, such as solid waste management and hazardous waste clean-up, must be addressed. When several special-purpose capital bills are also put on the table, the current flurry of capital activity will involve at least a dozen separate pieces of legislation considered independently by the House of Representatives and the Senate.

Other factors which add to the confusion this year include questions regarding: 1) the capacity of the Administration to implement even *existing* capital authorizations, let alone the authorizations which are pending; 2) the fiscal status of the Commonwealth in the face of possibly declining revenues; and, 3) the status of a \$480 million bonding authorization contained in the FY1987 budget for the Commonwealth (Chapter 206 of the Acts of 1986) to "forward-fund" the Massachusetts Bay Transportation Authority (MBTA), for which a "terms" bill, as required by the Constitution, has yet to be submitted.

PENDING CAPITAL AUTHORIZATION BILLS

As noted previously, approximately \$3.0 billion in capital authorizations and as many as 12 different bills are likely to be considered by the Massachusetts Legislature in 1987. The following is an estimate of the cost of and a brief description of the activities funded in each bill.

1) State Property Management Improvements - \$150 million

The Governor's FY1988 budget recommendation (House 1) includes this request to address the deferred and preventive maintenance needs of state facilities and property, including state forests and parks, computer and telecommunications equipment purchases, and maintenance of state higher education, correctional, and public health facilities. This recommendation is the first in a series of annual recommendations for capital maintenance purposes. A general purpose capital outlay budget has not been approved by the Legislature since 1983, although the FY1987 budget (Chapter 206 of the Acts of 1986) contained \$90 million in appropriated funds for capital maintenance projects and a \$35 million bonding authorization for purchase of capital equipment.

2) Major Renovation and New Construction Projects, State Facilities - \$150 million

This request, yet to be submitted by the Governor, would fund major capital projects involving state facilities and property, other than land acquisition, mental health facilities, and higher education institutions, all of which will be addressed in separate bills. This bill would be the first in a series of biennial major capital authorizations for state facilities. The kinds of needs addressed by this bill have not been addressed by the Legislature since 1983.

3) Open Space Acquisition and Preservation - \$258 million

This bill would fund a variety of Commonwealth open space acquisition and environmental preservation programs, such as the Self Help, Urban Self Help, Coastal Acquisition, Wildlife Habitats, River Basins, and Agricultural Preservation Restriction programs. Open space acquisition was last funded in Chapter 723 of the Acts of 1983, and the success of these programs in protecting and preserving diminishing open space has generated renewed interest at the state and local levels in their continuation.

4) Higher Education Capital Improvements Plan - \$293 million

A special message recently filed by the Governor would commit the Commonwealth to a seven-year capital improvements plan for its system of higher education institutions, at a cost for the period of \$954 million. Under consideration during the 1987 session will be a request for \$293 million to fund the first year of the plan, which will focus on construction activities at five universities, nine state colleges, and 13 community colleges. Major projects funded in the first year include a new campus for Middlesex Community College, a new classroom building for the University of Massachusetts/Amherst, completion of North Shore Community College's Beverly Campus, and development of the Mill Campus at the University of Lowell. The major construction needs of the higher education institutions have not been addressed since the passage of Chapter 723 of the Acts of 1983.

5) Capital Improvements to the Mental Health System - \$365 million

Pursuant to a special message filed by the Governor, the Senate Committee on Ways and Means recently reported out, following passage by the House of Representatives, a \$365 million capital authorization to fund improvements to mental health hospitals and mental health centers. Part of the Mental Health Action Plan recently prepared by the Administration, this bill would address badly neglected needs

throughout the mental health system, which has been allowed to deteriorate at the same time that the mental retardation system has seen dramatic improvement. Many of the facilities targeted here have not received capital funding for a decade or more.

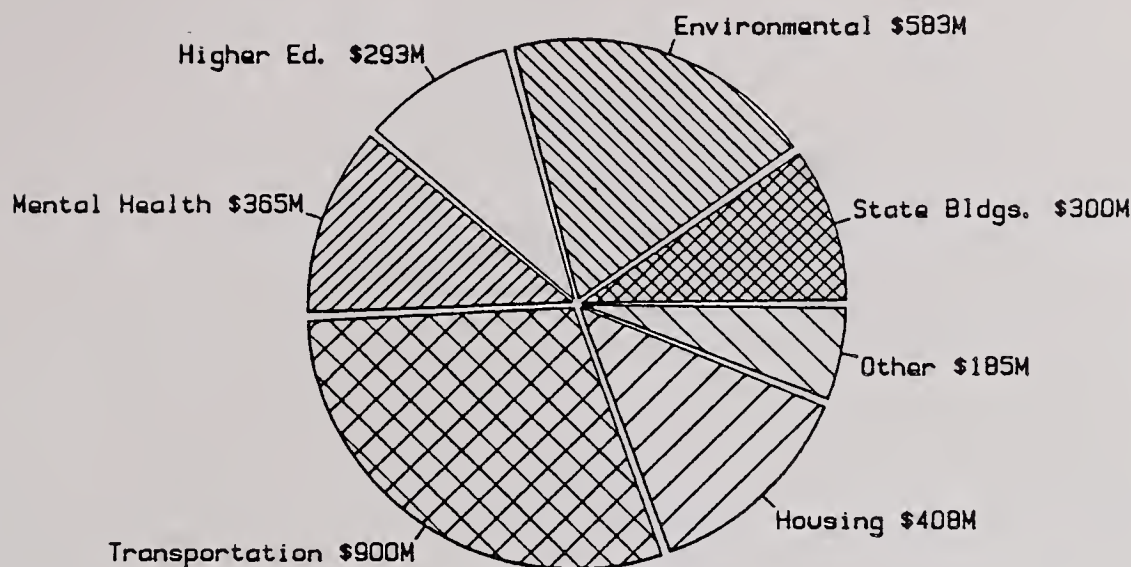
6) Capital Improvements to the Transportation System - \$900 million

At some point during the 1987 session the Governor will file a biennial capital authorization request for improvements to the state's transportation system which will total roughly \$2 billion in combined federal and state authorizations. The state share, in the form of General Obligation bonding authority and contract assistance to the MBTA will likely approximate \$900 million. Estimates at this time are difficult and are based on the previous bond authorization. Submission of the Governor's recommendation has been delayed by federal deliberations over reauthorization of the highway program, which includes possible funding for the Third Harbor Tunnel and Depression of the Central Artery, two projects of major importance to the City of Boston. Depending on the amount of federal participation which is approved for these projects, the request for state authorization could potentially be much higher. In addition to the Highway program, the bill is likely to address the "Chapter 90" needs of cities and towns, the mass transit needs of the MBTA and Regional Transit Authorities (RTAs), the capital transportation needs of the Metropolitan District Commission, and a variety of smaller transportation needs.

7) Low-Income Housing Production - \$408 million

The Joint Legislative Committee on Housing and Urban Development has reported out and the House of Representatives has passed a \$408 million capital authorization designed to stimulate the production of low and moderate income housing. Following on the heels of the largest housing bond issue in the history of the Commonwealth (\$324 million in 1985), this bill would provide funding for construction of new units of family, elderly, and handicapped housing, as well as modernization of state and federal units, housing alternatives, and action grants to private developers for low and moderate income housing developments. With the failure of the federal government to authorize the construction of new public housing units in recent years, the Commonwealth has been forced to accelerate its public housing capital outlay efforts; since 1982 the Commonwealth has authorized over \$600 million in new construction or modernization projects.

PENDING CAPITAL APPROPRIATIONS



\$3.0 BILLION

Source: Senate Committee on Ways and Means

8) Solid Waste Management - \$300 million

The Joint Legislative Committee on Natural Resources and Agriculture has reported out and the House of Representatives has passed a \$300 million authorization designed to assist cities and towns in their efforts to improve solid waste management and to control pollution caused by inadequate disposal procedures and facilities. A bill filed by the Governor in the 1985 session would have provided \$60 million in loans for the same purpose, but the Governor has not filed solid waste management legislation since that time. Included in the current version of the bill, apparently supported by the Administration, are a number of new grant and loan programs providing state assistance in the areas of closure and construction of solid waste disposal facilities, clean-up of water supplies contaminated by such facilities, construction of recycling and resource recovery facilities, and various pollution control activities. With many existing landfills at or near capacity and contributing to pollution of groundwater, cities and towns struggling under fiscal constraints imposed by Proposition 2 1/2, are in need of state assistance to address this critical problem. This bill would mark the first such comprehensive program of state assistance in this area.

9) Clean-Up of Oil and Hazardous Material Sites - \$25 million

The Governor has filed, pursuant to the approval of a referendum question on the subject by the voters last November, an "Act Providing for Timely and Effective Clean-Up and Emergency Relief at Oil and Hazardous Material Sites in the Commonwealth." This bill would set a concrete timetable for identification of sites and response actions by the Commonwealth, further regulate the transfer of property known to contain hazardous materials, and authorize \$25 million in capital funding for response actions by the Department of Environmental Quality Engineering (DEQE) to clean up hazardous waste sites. A similar authorization for the so-called "Superfund" clean-up activities of DEQE, under Chapter 21E of the General Laws, was passed by the Legislature in 1983 and has nearly been exhausted.

10) Improvements to Public Libraries - \$35 million

The Senate passed in the 1986 session, and the Senate President has re-filed in 1987, a bill which would authorize \$35 million in capital improvements to public libraries throughout the state. In the era of Proposition 2 1/2 and other fiscal constraints, cities and towns have been unable to keep up with the capital needs of public libraries, resulting in the rapid deterioration of these facilities.

11) Improvements to County Court Houses - \$50 million

The Senate passed in the 1986 session, and the Chairman of its Ways and Means Committee has re-filed in 1987, a bill which would authorize \$50 million in capital improvements to county-owned court houses throughout the state. Again due to local fiscal constraints, the counties, although reimbursed through rentals by the Commonwealth for use of the facilities, have been unable to address the major capital needs of the Commonwealth's court houses. This bill would provide initial assistance to meet some of the most pressing capital needs.

12) Convention Center Assistance - \$100 million

This bill, which passed the Senate in 1986, would authorize \$100 million in state bonding to support the further and future development of convention center activities within the state, in the interest of promoting tourism and stimulating the state's economy. A total of \$100 million in previous authorizations have been approved by the Legislature in 1981 and 1983 to support these activities.

DEBT BURDEN AND CAPITAL SPENDING

As noted above, the passage of these bills at the level of authorization proposed would increase the total current (end of FY1986) "unissued" debt by 79 percent and nearly double the existing capital spending responsibilities of the administering agencies, the Division of Capital Planning and Operations, the Department of Public Works, and the Department of Environmental Quality Engineering. These facts raise two significant questions: 1) to what extent will pending authorizations place an unwarranted debt burden on the Commonwealth, and 2) can the administering agencies spend these capital appropriations in a timely fashion?

As the Senate Committee on Ways and Means pointed out in its FY1986 policy report entitled *Long-Term Indebtedness*, the Commonwealth has a relatively high ratio of General Obligation debt per capita when compared to other states. In fact, that report demonstrated that the Commonwealth had the *ninth highest* per capita debt ratio of any state in the country. At that time the Commonwealth's debt per capita was in fact *twice* the national average. In terms of debt as a percentage of personal income the Commonwealth again ranked ninth in the nation, 50 percent higher than the national average. Since publication of this report, the situation has not changed, and, if anything, has worsened. Recent figures compiled by bond rating agencies show that Massachusetts in FY1986 had the second highest ratio of tax-supported debt to personal income of any of the states with which it routinely competes in the bond

market. These indicators suggest that the Commonwealth should exercise caution before increasing dramatically its debt burden. A mitigating fact, however, is the relatively high percentage of total Commonwealth debt which falls in the General Obligation category; many other states rely more heavily on contingent or guaranteed debt to effect their capital programs, making direct comparison of debt burden difficult and inflating somewhat the gravity of the situation in Massachusetts.

The second question, the ability of administering agencies to spend new capital monies in a timely fashion, is perhaps a more serious concern. As previously noted, approximately \$3.2 billion in outstanding capital appropriations remained unspent by state agencies at the end of FY1986. This figure represents roughly 42 percent of outstanding authorizations. Capital spending by state agencies in FY1986 totaled approximately \$450 million, and the average yearly rate of expenditure since FY1980 has been \$360 million. If one assumes that the current rate of spending remains constant and that no new authorizations beyond those pending are approved, it would take the Commonwealth *13.5 years* to complete such a capital program. Of course, the reality is that additional authorizations will be approved, which will further add to the backlog of unfinished projects. It must be noted that the Administration is aware of this "gap" between the capacity of the capital spending agencies to spend and the number and amount of pending authorizations. The administration has in fact prepared plans to accelerate the annual rate of spending. The most optimistic estimate of increased spending, however, would have the state spending \$800 million annually by FY1990. Even under this scenario, assuming no new authorizations beyond the bills which are pending, completion of the program would take *eight years*. Increased capital spending will require additional operating budget resources for the administering agencies, the cost of which must be calculated in addition to debt service costs. A table providing capital spending information for the period FY1980-FY1986 by secretariat and agency, based on official data compiled by the Comptroller's Office, is attached.

DEBT SERVICE AND THE COMMONWEALTH'S FISCAL STATUS

The cost to the Commonwealth of \$3.0 billion in capital authorizations is not easily measured by fiscal year. Many assumptions having to do with the timing of bond issues, the capacity of agencies to spend, and the types of capital programs being authorized underlie projections of annual debt service costs. Similarly, contingencies such as declining federal

reimbursements, a slowdown in tax growth, and the effects of a recently approved "cap" on the amount of revenues which the state can spend, must be factored into any assumption of affordability.

Administration estimates of the debt service costs of pending capital authorizations (again assuming no new authorizations after FY1987) range from a 44 percent increase in current costs over the next 10 years, assuming no changes in the current fiscal climate, to a 144 percent increase in costs over the same period, if an accelerated spending plan is adopted and federal revenues decline. Under these scenarios debt per capita would increase from its present level of \$667 to either \$882 or \$1,292, depending on the assumptions used. While it is true that debt service as a percentage of the state budget has remained constant, and has even decreased slightly in recent years, this holding pattern has more to do with increases in other areas of the budget than with debt service. Although the Administration's projections are based on reasonable economic growth and interest rate considerations, the variation in assumptions reflects the inherent uncertainty of debt service projections. The only certainty in this area is that debt service costs, once incurred, are an automatic expense to the Commonwealth and a non-negotiable item in the annual budget.

In the first *Fiscal Facts* report released in December 1986, the Senate Committee on Ways and Means called attention to the fact that state revenue growth had slowed and that the so-called "surplus" of state funds had been used to fund a series of tax cuts and contributions to offset the Commonwealth's unfunded pension liability. In fact, because revenue collections in FY1987 are below the projections upon which FY1987 budgetary spending was based, the Commonwealth faces the prospect of a tight year-end closing of the books. Since publication of that report the FY1987 fiscal status of the Commonwealth has not changed. Whether a continued slowdown will carry over into FY1988 remains to be seen, but caution should be exercised in assuming a continuation of the remarkable growth in the Massachusetts economy which has occurred over the past 10 years. A capital program which will increase non-negotiable debt service costs beyond otherwise expected levels must be carefully considered in such a climate.

FORWARD-FUNDING OF THE MBTA

Section 2D of Chapter 206 of the Acts of 1986, the FY1987 General Appropriations Act, directs the Commissioner of Administration to enter into a contract with the Massachusetts Bay Transportation Authority to provide sufficient funds to the Authority to retire its operating debt during FY1987 and to enable the Commonwealth to "forward-fund" the MBTA as of July 1, 1987. To date, the Commonwealth has been forced to provide annual appropriations to the MBTA to meet the costs of an operating deficit incurred many months before. A total of \$480 million was appropriated for this purpose in Chapter 206, to be bonded over a five-year period. No capital "terms bill," as required by the state Constitution, has been filed by the Governor to activate this appropriation, and the debt service costs of this authorization are not contained in the debt service projections currently being used by the Administration to demonstrate the affordability of the \$2.9 billion in pending capital outlay bills. The cost of implementing this law should be factored into any formula which purports to project future costs. Factoring in these costs dramatically increases the debt service burden which would result from passage of pending legislation at requested levels.

CONCLUSIONS

The Commonwealth must address many capital needs in FY1987, a number of which represent long-neglected obligations. In doing so, special attention should be paid to the effects of a massive infusion of new dollars into a system which has a limited capacity to spend. Consideration should also be given to the wisdom involved in increasing drastically the Commonwealth's already substantial debt burden and future debt service costs in a time of relative fiscal uncertainty. Finally, implementation of Section 2D of Chapter 206 of the Acts of 1986 must be assumed in all debt service and capital spending plans.

The Legislature and the Governor, therefore, must exercise restraint in addressing the capital authorization agenda which is before them.

COMPTROLLER'S EXPENDITURE REPORT

	FY 1980 Expend.	FY 1981 Expend.	FY 1982 Expend.	FY 1983 Expend.	FY 1984 Expend.	FY 1985 Expend.	FY 1986 Expend.
Legislature	5,577	23,126	908	0	662,820	850,270	23,747
Judiciary	0	11,700	36,359	181,490	210,070	765,343	165,360
Executive	9,443	42,510	78,310	0	437,535	2,761,337	756,754
Secretary of the Commonwealth	0	141,510	585,416	2,428,018	4,240,565	5,755,371	4,622,290
Treasurer	0	0	0	0	0	1,790,000	0
Attorney General	42,167	37,528	2,269	2,702	0	0	0
Subtotal	57,187	256,374	703,262	2,612,210	5,550,990	11,922,321	5,568,151
Convention Center	0	5,292,080	5,945,000	52,555,985	11,661,844	12,718,235	274,550
Parking Facilities Loan	0	6,477,120	2,029,543	5,161,572	9,853,869	4,485,694	7,452,055
Mass Tech Park Corp	0	0	0	0	0	0	6,537,656
Transportation Bldg	537,919	7,146,080	31,169,453	28,801,736	11,884,352	2,772,575	180,265
Data Processing Equipment	0	0	0	0	0	24,425,310	3,772,021
Local Lockup Facilities	0	0	0	0	0	0	10,952
Suffolk County Jail	0	0	0	0	0	0	131,830
Government Land Bank	5,034,732	5,025,830	1,625,000	627,469	8,152,913	0	0
Other A&F	8,329,139	10,706,162	7,668,853	9,716,604	9,366,691	7,618,687	12,376,167
Administration & Finance (exc. balances reverted)	13,901,790	34,647,272	48,437,849	96,863,366	50,919,669	52,020,501	30,735,496
Office of the Secretary	275,777	19,966	0	0	1,630	575,749	6,576,532
Conservation Services	2,443,993	1,994,677	3,036,519	2,687,068	3,464,995	4,041,717	9,345,243
DEN	836,474	4,109,140	12,693,281	16,054,886	11,271,657	16,632,274	27,906,022
DEQE	2,229,553	14,153,839	17,288,627	9,236,690	24,180,792	28,074,835	53,203,215
Fisheries & Wildlife	0	0	150,204	665,010	135,423	591,198	554,657
MDC Roads	3,984,309	5,356,127	6,075,219	8,536,779	7,450,077	2,387,815	4,633,427
MDC Other	24,524,204	31,640,296	18,027,034	14,415,933	22,278,687	58,974,606	12,843,692
Food & Agriculture	541,783	2,572,123	3,734,417	6,387,065	2,964,738	5,114,145	8,698,494
Natural Resources	28,318,500	28,831,948	31,024,407	36,617,744	24,532,738	23,838,446	24,597,004
Environmental Affairs	63,154,593	88,678,116	92,029,708	94,601,175	96,280,737	140,230,788	148,358,286
Communities & Development	75,759,317	64,902,328	76,901,429	77,721,473	52,835,510	49,422,769	44,725,052
County Corrections	0	0	0	191,283	7,995,518	5,660,280	2,865,557
Dept. of Correction	2,389,148	7,449,578	12,758,920	10,943,135	12,929,624	17,731,734	23,036,519
Dept. of Mental Health	14,321,482	34,925,919	31,691,030	23,054,636	10,542,806	31,287,532	27,547,121
Other Human Services	1,851,410	3,347,173	8,406,545	3,993,111	4,280,679	4,515,303	3,705,634
Human Services	18,562,040	45,722,670	52,856,495	38,182,165	35,748,627	59,194,849	57,154,831
Transportation & Construction	31,775,977	51,371,819	54,939,653	104,291,373	93,218,973	84,183,421	128,112,269
Higher Education	22,774,833	18,828,845	9,814,093	11,415,199	17,039,364	16,558,078	32,849,317
Public Safety	79,847	906,713	566,692	1,525,792	67,629	368,678	426,612
Manpower Affairs	0	0	0	0	250,000	850,000	25,000
Energy Resources	0	10,761,797	3,418,806	1,814,649	1,408,551	1,000,100	1,380,905
TOTAL	226,065,584	316,075,934	339,667,987	429,027,402	353,320,050	415,751,505	449,335,919

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